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THE RELATION OF THE PROTECTIVE TARIFF TO THE TRUSTS.

BYRON W. HOLT.

The one essential element of a trust is a monopoly. We cannot have a trust without some kind of a monopoly. Neither a combination, nor a chain of department stores, no matter how big, can ever become a trust, unless they have special privileges and enjoy some form of monopoly.

Monopoly, then, is the mother of all trusts, though not all monopoly combinations are trusts.

While the tariff is only one of several monopoly-producing factors, yet it is to-day, in this country, by far the most important factor in producing the hundreds and thousands of industrial combinations popularly called trusts.

While other special privileges, such as patents, trademarks, etc., might, in some instances, have resulted in trusts, yet it is reasonably certain that even this class of trusts is to-day more numerous and stronger because of the tariff. The tariff has also greatly strengthened many of our natural monopoly trusts, such as those of iron ore, coal, lead, borax, etc. Many of these trusts would never have been born had not there been a tariff to prohibit the importation of the products of foreign mines, except at artificially high prices. Not only is the tariff the most conspicuous, if not the greatest, special privilege in this country, and not only does it result directly in producing more trusts than all of the other factors combined, but indirectly, it is largely responsible for much of the evil in the trusts of which it is not the primary cause.

All things considered, it would appear that Mr. H. O. Havemeyer, the president of the Sugar Trust, was not far from the truth when, in 1899, he told the Industrial Commission that "The mother of all trusts is the customs tariff bill". We should not, however, fail to note the qualifications which he stated:

"The existing bill and the preceding ones have been the occasion of the formation of all the large trusts with very few exceptions, inasmuch as they provide for an inordinate protection to all the interests of the country, sugar refining excepted. Economic advantages incident to the consolidation of large interests in the same line of business are a great incentive to their formation, but these bear a very insignificant proportion to the advantages granted in the way of protection under the customs tariff."

I do not know that I can state any more clearly and concisely than did Mr. Havemeyer some other general truths which have not, as yet, received proper consideration by the public:

"The tariff bill clutches the people by the throat, and then the governors and attorneys-general of the several States take action, not against the cause, but against the machinery which the people employ to rifle the public's pockets. . . ."

"I repeat that all this agitation is against merely the business machinery employed to take from the public what the Government in its tariff laws says it is proper and suitable they should have. It is the Government, through its tariff laws, which plunders the people, and the trusts, etc., are merely the machinery for doing it."

It ought not to be necessary for me to waste a minute of my time trying to explain to the members of the American Economic Association how a tariff, by restricting the field of competition, encourages and promotes industrial combinations and how it, after they are formed, fosters

and protects them and enables them to control prices within certain limits. Such a primary economic fact should appear as an axiom to educated and logical minds. However, as I do not wish to beg the question, and as some educated and apparently logical minds not only do not accept this fundamental fact as an axiom, but dispute its truthfulness, it is necessary for me to waste a few moments of your time in kindergarten economics.

Is it not obvious that it is easier to form a national than an international trust? To form a state than an interstate trust? Other things being equal, the smaller the territory circumscribed by a tariff that shuts off outside competition, the more likely it is that the competitors inside of the tariff wall will get together to regulate prices. With nine-tenths of the possible competition excluded by a tariff it is comparatively easy to stop competition on the part of the remaining tenth of the competitors. To illustrate:

The manufacturers of print goods in the United States have not, as yet, either by agreement or by uniting into one great corporation, been able to prevent competition among themselves and to put up prices to the limit of the duty-paid price of imported prints. Suppose, however, that the old fogies who made our constitution had learned our modern methods of taxing ourselves into prosperity and had refused to prohibit the states from enjoying to the fullest the blessings of high tariff and high prices. Suppose, also, that this little state of Rhode Island now had a Dingley tariff around it, would your manufacturers waste many days in getting together to compel your citizens to pay higher prices for their print goods? Would not the vote for a state tariff be equivalent to an invitation to the manufacturers to charge higher prices for their goods? Would there be any sense in a

protective tariff unless it were to keep out cheap foreign goods and to permit domestic manufacturers to get higher prices? Could you blame your manufacturers of cotton goods if they formed trusts and sold their goods in your little, exclusive, protected state for real "Rhode Island" prices, while continuing to sell in other states at just plain "American prices"?

Would you not expect your manufacturers of woollens, of electrical goods, of steam engines, of locomotives, of automobiles, of soap, and of hundreds of other articles and goods to imitate our steel, sugar, lead, and other trusts, and form combinations with two catalogues and price lists—one for the home market (Rhode Island) and the other for export? You could then have your own steel and sugar and glass and leather trusts. Think of the joy of eating Rhode Island sugar, of looking through Rhode Island window-glass, of riding over Rhode Island steel rails and of sleeping under roofs covered with Rhode Island tin plate! You could have Rhode Island oranges and bananas, too, if you would put duties high enough and were willing to pay the prices. It is all wrong, anyhow, for good protectionists to eat pauper sugar, oranges and bananas from Louisiana, Florida, and Porto Rico. Think of the great home markets you would have if you had plenty of protection and imported no goods from anywhere! All of these and many other accompaniments of protection would now be in reach of the citizens of Rhode Island, but for that awful blunder of our constitution makers.

Possibly in such a small protected area, even the producers of eggs and honey might conclude that they were foolish to let the tariff duties go to waste and would form trusts to reap the tariff benefits patriotically voted to them. Think what a cackling and buzzing you could

have in your little protected paradise if you could and would put a duty of 25 cents a dozen on eggs and 25 cents a pound on honey!

Of course, such duties would increase the cost of living and would make it advisable for the employees in your factories to form unions and to demand "Rhode Island" wages. They could not be expected to pay "Rhode Island" prices and work for the pauper wages of Massachusetts and Connecticut. Surely not! They would, by striking and threatening to strike, get slightly higher money wages than were paid in Connecticut and other states, but not enough to fully offset the higher cost of living in little Rhode Island.^{^^} Nevertheless, they might feel so well satisfied with protection that they would have a mortal fear of what might happen if they should vote for free trade with other states. Your manufacturers, and probably your farmers also, would get real protection on their products; your wage-earners would get imaginary protection; your consumers, that is all of your citizens, would foot the tariff bills.

Of course, your wage-earners would always be expected to believe that a tariff on goods—what they have to buy—would protect labor—what they have to sell. It would never occur to them that with labor free to go in and out of Rhode Island, wages, real wages, could not average higher inside than outside the state. Nor would it ever occur to them that the way to protect labor would be to put an import tax, of say, \$1,000 per head, on all immigrants from other states and other countries. Your protected manufacturers could be counted upon to keep up the delusion by continually preaching that the blessings of protection were all-pervasive and that, though they were the first beneficiaries of higher prices for goods, yet that, through higher wages and better home markets,

the benefits were finally distributed to all. The system would, of course, be beneficent and, like the Dingley bill, would soon be considered the most perfect ever devised. Anyone who would threaten to lower the duties on any protected product would be an enemy and a traitor. That's the way the game is played in this country. With variations, that's the way it's played in Canada, Germany, France, Austria, Italy, and Russia. The variations are due largely to different industrial conditions. For example, the protectionists of France, Italy, Austria, and Russia do not try to frighten the voters by the danger of being flooded by cheap goods made by the pauper labor of England and the United States. These protected continental European countries are in the pauper-labor business themselves.

The tariff breeds trusts as naturally as a Jersey swamp breeds mosquitoes. To increase protection to industries perfectly capable of standing alone and competing with the world, as was done by the McKinley and Dingley bills, is to invite the formation of gigantic industrial combinations to put up prices. It is not strange then that the era of trusts began with the passage of the McKinley act and was continued, after three years partial interruption, under the Dingley act.

Of the 318 active industrial combinations mentioned in Mr. John Moody's "The Truth About the Trusts", published in 1904, only 80 were in existence previous to the passage of the Dingley bill in 1897. The 238 trusts formed during the first six years of the Dingley law represented five-sixths of the total capitalization of all of the 318 trusts mentioned. Of these 318 trusts there are probably not 20 that are not protected and that do not receive benefits from tariff duties. It is not unlikely, though, that some of them are injured as much by other

protected trusts as they are benefited by duties on their own products. It is, however, easier for them to see the direct benefits than the indirect losses.

Of course, this list of 318 trusts is very incomplete. It includes only some of the larger and more conspicuous of the incorporated industrial combinations. It does not include the hundreds of agreements between the manufacturers of steel products, implements and tools and other hardwares, chemicals, drugs, medicines, etc. These range all the way from steel rails to baby food, in both of which products there are more effective trusts, so far as consumers are concerned, than there are in sugar or beef.

If time permitted, I should like to trace the origin and growth of many of the leading trusts in a way to show the tariff connection. In my limited time I can barely suggest the relation of the tariff to two or three trusts. I will take the steel and borax as typical instances of tariff trusts.

Both as to capital and earnings, the steel trust is easily the most colossal corporation on earth. It is a holding rather than an operating company, and was formed with the intent, effect, power, and tendency to restrain and suppress competition and create a monopoly. It is clearly illegal under the Sherman anti-trust law and under the laws of several states in which it does business, as has been shown by Professor H. L. Wilgus. It is a trust in the original sense of the word, because it holds, as a trustee, the shares of the various constituent companies and votes for directors of these companies. Its net earnings this year will be about \$150,000,000. From its reports, it is impossible to tell the amount of its sales. The 1905 report gave the "gross sales and earnings" as \$585,331,-736. The total number of tons of "rolled and other finished products" sold was 9,226,386. Allowing \$35,-

000,000—a liberal estimate—for all earnings and sales outside of those on rolled and finished products, it would appear that 9,200,000 tons of steel products sold for \$550,000,000, or an average of \$60 a ton. But this is an absurdly high price. It is probable that the average selling price did not exceed \$40 a ton, or \$370,000,000. All other sales above this amount, except possibly the \$35,000,000 mentioned, were sales between the constituent companies of the trust. The first annual report, made in 1902, specifically stated that the gross sales (then \$560,510,479) included “sales between the companies”.

It is evident, then, that the total gross sales and earnings in 1905 were only \$400,000,000. As the net profit was close to \$120,000,000, the total cost of the goods sold, including all manufacturing and selling expenses, was about \$280,000,000. This means that the net profits were over 40 per cent. of the cost of the goods sold.

Estimated in the same way, it is probable that this year's actual gross sales—to the outside world—will not much exceed \$450,000,000 and the total cost of all goods and services sold may not exceed \$300,000,000. The net profits, then, may be 50 per cent. of the selling price of the goods. As 50 per cent. profits would look bad in the report of a protected corporation that is the recipient of tariff favors, it is wisely deemed best to disguise the rate of profits from the tax-paying people. This is done by juggling the gross sales.

It is difficult to estimate the tariff bonus of this giant “infant”. A somewhat careful estimate for the years 1902 and 1903 indicated tariff profits of \$75,000,000 a year with total net earnings of about \$120,000,000. These estimates were made mainly by taking the differences between the export and domestic prices of the va-

rious goods and products sold and by multiplying these differences by the amount of products sold in the home market. It is a safe assumption, based on many known facts, that all important iron and steel products are made more cheaply in this than in any other country, and that all of the difference between foreign and domestic prices—at least up to the amount of the import duties—can be credited to the tariff. In past years, this difference has averaged \$10 or \$12 a ton. This year, because of much higher prices abroad, the average difference will, perhaps, not exceed \$5 or \$6 a ton. That is, it will amount to between \$50,000,000 and \$70,000,000 on the products sold at home by the steel trust. During the past two or three months the prices of some kinds of steel have been as high abroad as in this country. At all times, however, there has been a wide difference on some goods. Thus, the present export price of wire nails is \$1.55 against a home price of \$2, a difference of 45 cents a hundred or of \$10 a long ton.

How superfluous is the duty of \$11.20 to \$22.40 per ton on wire and wire nails is evident from the testimony of Mr. John W. Gates before the Industrial Commission in 1899. He stated that his company then exported 700 tons of wire a day and that it furnished England with 60 per cent. of her supply. He said it was necessary to sell goods lower to foreigners in order “to hold outside trade”.

There was no sound reason, even from the infant-industry theory of protection, for any tariff on iron and steel, when the Dingley bill, in 1897, increased the duties on iron and steel goods. Every bit of tariff put on or left on these goods came as a gratuity to our steel manufacturers, a premium to all who had sense enough to

stop foolish competition and support prices inside the high tariff walls.

The manufacturers were not long in accepting the tariff offer. They quickly began to form trusts and put up prices. The little trusts were formed into bigger ones; these bigger ones were gathered into still bigger ones, and, finally, into the nearly two-billion-dollar colossus that is to-day the greatest dictator and the greatest beggar at Washington. That is, this trust is both a prince and a pauper, instead of "either a prince or a pauper", as Mr. Carnegie has said of the iron and steel industry.

The process of amalgamation and concentration is still proceeding rapidly under the sheltering wings of the tariff. Mr. J. J. Hill probably obtained several times as much for his iron ore as he would have obtained if there had been no tariff on iron and steel. He is now cutting tariff melons. He saw a tariff storm coming and was wise enough to gather his crop of melons before the rain began to fall and the flood was upon them. His only mistake was in agreeing to pay the taxes on the ore lands.

How quickly the "rush to industrial monopoly" began, after the passage of the Dingley bill, is evident from the fact that all of the ten important manufacturing concerns that have been absorbed by the steel trust were incorporated in the years 1898, 1899, and 1900. In fact, one of them, the American Steel and Wire Company, was incorporated twice—once in 1898 and again in 1899. The 1898 corporation had \$24,000,000 and the 1899 corporation had \$90,000,000 of capital. The actual capital invested was probably between \$30,000,000 and \$50,000,000.

How quickly the trusts began to put up prices is shown by the quotations of steel and wire products. For example, the base price of wire nails, which was \$1.35 in

July, 1897, just before the Dingley act passed, rose to \$1.57 in February, 1898, after which it declined somewhat while the bigger trust of January, 1899, was forming. The price rose from \$1.59 in January to \$3.53 in December, 1899. That is, under the "economies" of production on a larger scale, prices more than doubled in one year and nearly trebled in two years.

The tin plate trust had a similar experience to that of the steel and wire trust. When the American Tin Plate Company was formed, in November, 1898, American tin plate was selling at \$2.80 a box, or within one-fifth of a cent per pound of the in-bond price of English tin plate. The promoters estimated that there was then a profit of 35 cents per box on 7,633,556 boxes per year, or \$2,671,754. Under the new arrangement expenses were to be reduced \$1,000,000. Perhaps such a reduction occurred. If so, it did not show in the prices of tin plate, which rose from \$2.80 in November, to \$3.20 in January, to \$4 in March, and to \$4.85 in September, or 80 per cent. within ten months. This latter price was near the price of English plates, after paying the duty of \$1.50 a box.

Even before the formation of the steel trust in 1901, American tin plate was being sold for export at about \$1.00 a box below home prices. This practice has continued, and to-day the wages of tin plate workers are reduced 25 per cent. on tin plate made for export.

Assuming that protection was advisable in the infant-industry stages of our tin plate industry, there is to-day no justification for any duty, except that it enables this trust to extract about \$10,000,000 a year from our consumers. This duty increases the cost of our food and shelter. It has cost us more than \$150,000,000 since the passage of the McKinley act in 1890. This is the price we have paid for an industrial mendicant that has always

been a curse to the country, by interfering with or ruining the well-established and independent industries like that of fruit and vegetable canning that ask for no governmental aid. To some this price seems high. We would rather the industry had developed naturally and without artificial aid. It might have taken a few years longer, but we would surely have had it by this time, even if there had never been a duty on tin plates.

The Borax Trust is one of the best examples of the evils of tariff "protection". In November, 1890, soon after the passage of the McKinley bill, the Pacific Coast Borax Company absorbed nearly all of the important producing borax mines of California and Nevada. These mines produce more than half the borax of the entire world. They probably produce it cheaper than it is produced in any other mines. The price was promptly run up from $8\frac{1}{2}$ to $9\frac{1}{2}$ cents, after the McKinley act raised the duties to 5 cents per pound on all forms of borax.

When the Wilson bill reduced the duty to 2 cents the price of borax declined rapidly to 7 cents in September, 1894, to $5\frac{1}{4}$ cents in 1895 and to 5 cents in 1896. Not only did the demand increase rapidly under the stimulus of low prices, but large quantities of borate of lime were exported and sold in England at from 2 cents to 3 cents per pound. When the duty was again put back to 5 cents, by the Dingley act in 1897, the Oil, Paint and Drug Reporter expressed the opinion that because of the largely increased demand for borax at the low prices that had prevailed it would be bad policy for the trust to materially advance prices and thus check production. Nevertheless prices were put up to 6 cents in October, 1897, to 7 cents in February, 1898, and, by July, 1900, they had reached 8 cents. Since then prices have remained between 7 and 8 cents. At these prices there is probably 4 to 5 cents

per pound net profit, or something like \$4,000,000 a year on the 90,000,000 or so pounds produced.

By underselling foreign producers in their own markets in 1896, 1897, and 1898, the Borax Trust was enabled to drive its competitors so nearly out of business that it took them over on its own terms and, in 1899, the twelve principal borax producers and refiners of the world were combined as the Borax Consolidated Works, Limited. This world trust is clearly the offspring of the Dingley bill, as are also similar world trusts in several important steel products. Had there been no duty on borax, neither the American nor the world trust would have been formed. From behind our tariff, which enabled our trust to become swollen with profits, Mr. F. M. Smith, the head of the Pacific Coast Company, waged a warfare that soon made him the borax king of the world. The British and Colonial Druggist, of England, stated the situation clearly in September, 1897. To the "natural advantages in the matter of deposits of pure borax," it said, the American trust was protected by an extremely heavy duty on borax, which "practically bars foreign product from entering into the States". It said the American manufacturers were "in a position to give away one and a half times as much borax as they sold at home, and yet receive a return per pound on the whole higher than the present English price per pound".

This trust is to-day selling refined borax in New York at $7\frac{1}{2}$ to 8 cents, and in London at 3 1-5 to 3 2-5 cents per pound. Thus the protected American is just double the free-trade English price. Whether or not American borax is still being exported I do not know. If not it is probably because Mr. Smith does not care to give his American subjects a permanent exhibition of their tariff folly.

The scandalous proceedings which characterized the passage of the sugar tariff in congress in 1890, 1894, and 1897 were more than duplicated when the duty on borax was raised in 1897. Absolute fabrication on the part of several senators, both Republican and Democratic, was resorted to to get the duty increased. For instance, two senators denied that an international trust had been formed, although one had then been running six months and, in spite of the low prices, had earned 12 per cent. on its capital, as was shown clearly by facts submitted. Again, although the prospectus of this trust stated that American borate had been exported to England and sold there for less than 2 cents a pound "at a substantial profit", one borax senator had the hardihood to assure his easily beguiled brother senators that nothing of the kind had ever happened or could have happened.

If we had had an Industrial Commission that had not been "stacked" by protectionists it would have made some attempt to inquire as to the inducements that prompted the four borax Senators to falsify facts in order to get the borax duty increased.

The extent to which the tariff trusts plunder us is not known. It is reasonably certain, however, that the amount of the tariff-trust graft far exceeds the graft in both our railroads and insurance companies concerning which so many of our good citizens have become excited during the last two years. Somewhat careful and detailed estimates indicate that it is nearly \$100 a family, or between \$1,500,000,000 and \$2,000,000,000 a year. This estimate was reached by considering the items purchased by the average family and the tariff cost of each,

Some idea of the amount of this tariff-trust graft may be obtained by considering the difference between the rise of prices in this country and in England. Sauerbeck's

Index Numbers indicate that prices in England were 32 8-10 per cent. higher in November, 1906, than in July, 1896. The London Economist's tables indicate a similar advance. Bradstreet's tables indicate an advance of over 54 per cent. and Dun's of 48 per cent. in this country in the last ten years. Prices in this country, then, have risen about 20 per cent. more than in England since the passage of the Dingley bill. Of course, the prices of many protected articles were higher in this country in 1896 than in England, for there were tariff trusts even in the comparatively low, but actually very high, tariff days of the Wilson bill.

In England there is no tariff and there are no trusts, such as we have in abundance, to account for the 30 per cent. advance in prices. This advance can fairly be credited to the depreciation of gold, caused by its rapidly increasing output and supply. If the same cause accounts for a similar increase in this country, we have an advance of 20 per cent. to account for by other causes. If only two-thirds of this increase be credited to the tariff trusts, we have fully 10 per cent. of the cost of living chargeable to Dingleyism.

It is this nearly \$2,000,000,000 a year of tariff graft that has created more of our swollen fortunes than any cause mentioned by the prominent protectionists who are now casting so anxiously about for means of reducing the swelling. While inheritance and income taxes might cause a slight decline in the rapidity of growth, they would not stop the increase in these swellings. The increase will not stop until the causes of it are removed.

What folly to pass tariff laws to invite trusts and to license them to plunder us while, at the same time, we are passing other laws to control, curb, and even to destroy these legally-created monsters! We put certain

statutes on our books to obstruct trade and certain other statutes to punish those who obstruct trade by making effective use of the first statutes. We have the McKinley and Dingley bills to encourage trusts and the Sherman and Elkins anti-trust acts to discourage them. The absurdity of such legislation is only equalled by that of New York and other states that have passed laws that allow one corporation to purchase the stocks of other corporations, and other laws to punish rigorously any corporation that obtains a monopoly by buying a controlling interest in the stocks of other companies. Mr. Franklin Pierce, in his book "*The Tariff and The Trusts*", just off the press, says that such absurdities are characteristic of American legislation. He says:

"We legalize conditions out of which an evil arises and then attempt to suppress the evil by penal statutes. We provide the high duties upon foreign imports for the protection of home industries, and when a monopoly controlling the home market results therefrom, then pass penal laws punishing the monopoly. In this way our politicians prove to the great combinations who furnish campaign disbursements for political parties their fidelity to monopolistic interests, while, by the penal statute, they assure the people that they are against the trusts."

Of course, our politicians are not looking for the real cause of trusts. They are not bent on exterminating the trusts that supply campaign funds that keep them in power. They vote for tariff laws to aid the trusts and harm the people and then for anti-trust laws that will neither harm the trusts nor aid the people. Such anti-trust laws are only intended to keep the people quiet, to distract attention, and to delay the application of the real remedy.

The real remedy is, of course, the removal of the cause. Any other remedy than the removal of the tariff that nourishes and protects trusts is spurious and futile. The

trusts know this and the politicians at Washington know it. The trusts know that their friends could not long remain in power if they did not pose as "trust busters" and spend part of their time concocting harmless remedies. The trusts understand that, in order that they may hold on to the tariff, it is necessary for them to submit to more or less annoying, but perfectly ineffective, anti-trust legislation. They will submit to almost any kind of harsh treatment administered in order to fool the people and to divert attention from a consideration of the real remedy. The one thing that the trusts will not permit their agents, the politicians at Washington, to do, is to touch the tariff. Even the revision of our drawback laws is not permitted. The steel trust simply tells Mr. Dalzell to tell Mr. Payne that the drawback duties are not to be touched and the Ways and Means Committee becomes as impassive as a sphinx.

Discussing the remedy for trusts, Mr. William Lloyd Garrison says:

"Break the tariff embargo and foreign competition will bring prices to a fair level. In England a great soap trust was recently launched. It had capital and ability, but no tariff to shelter it. Public indignation cut that flower down in a night. And what a decimation of robber contrivances would take place in this country with the abolition of duties on trust articles! Able now to produce at less cost than manufacturers anywhere else on earth, these chartered monopolies now sell abroad their exports at prices far below domestic ones. Gratitude for the tariff privilege, which these stupid American people concede, is manifested by these beneficiaries in further punishing consumers with extortionate prices and favoring the people of foreign lands against whom it is the custom to invoke distrust and jealousy. To say that trusts cannot be reached through the removal of tariff duties is to betray crass ignorance or a deliberate purpose to shield the iniquitous conspiracy under which the people of this country groan."